

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH 641 WATER DISTRICT)	CASE NO.	
FOR RATE ADJUSTMENT PURSUANT TO)		2015-00278
807 KAR 5:076)		

ORDER

On August 10, 2015, South 641 Water District ("South 641") applied to adjust its volumetric and flat sewer service rates in two phases pursuant to 807 KAR 5:076. By this Order, the Commission approves an increase to South 641's current volumetric and flat sewer service in two phases that will ultimately produce additional annual sewer service revenues in the amount of \$74,122, an increase of 177.79 percent over pro forma present rate sewer service revenues in the amount of \$41,692.

The approved volumetric rate phase-in plan will increase the monthly bill of a residential sewer customer who purchases 5,000 gallons of water from South 641's Water Division as follows:

	Monthly Bill Using Volumetric Sewer Rates	Increase	Percentage Increase
Current Rates	\$ 19.69		
Phase 1 Rates	37.18	\$ 17.49	89%
Phase 2 Rates	54.67	17.49	47%
Total		<u>\$ 34.98</u>	<u>178%</u>

The approved flat-rate phase-in plan will increase the monthly bill of a sewer customer who does not purchase water from South 641's Water Division as follows:

	<u>Monthly Flat Sewer Rate</u>	<u>Increase</u>	<u>Percentage Increase</u>
Current Rate	\$ 19.69		
Phase 1 Rate	33.14	\$ 13.45	68%
Phase 2 Rate	48.73	<u>15.59</u>	<u>47%</u>
Total		<u>\$ 29.04</u>	<u>147%</u>

On November 9, 2015, after reviewing the application and South 641's records, Commission Staff ("Staff") issued a report containing its finding regarding South 641's requested sewer rate phase-in plan. As stated in its report, by applying methods and practices that are generally accepted by the Commission, Staff found that:

- 1) South 641's adjusted test-year operations support a \$74,122 increase to annual sewer sales revenue;
- 2) It is appropriate to adjust sewer service rates in two-phases over a 12-month period in order to generate the sewer revenue increase;
- 3) It is appropriate to calculate South 641's flat monthly sewer rate by applying the volumetric sewer rate to 4,000 gallons of assumed monthly water usage; and
- 4) South 641 should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.¹

On November 16, 2015, South 641 filed responses to Staff's report wherein it accepted Staff's findings and requested that no informal conference or hearing be held.

¹ See Staff Report, Summary of Findings at 5-7.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. South 641 was organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 362 customers, and a sewer collection system through which it provides sewer service to approximately 220 customers, in Calloway County, Kentucky.²

2. The calendar year ending December 31, 2014, should be used as the test year to determine the reasonableness of South 641's existing and proposed sewer rates.

3. Based upon pro forma test-year operations, South 641's Sewer Division's total pro forma present rate revenue and total pro forma operating expenses, after adjusting for known and measurable changes, are \$43,604 and \$109,195, respectively.³

² Staff Report at 1.

³ *Id.* at 4. The revenues and expenses listed below include all regulated and non-regulated operations that should be accounted for when calculating South 641's income from sewer operations that is available to service its debt.

Sewer Revenues	\$ 41,692
Other Operating Revenue	1,635
Interest Income	<u>277</u>
Total Revenue	<u>\$ 43,604</u>
Operation and Maintenance Expenses	\$ 69,761
Taxes Other Than Income	1,522
Depreciation	<u>37,912</u>
Total Expenses	<u>\$ 109,195</u>

4. South 641 currently has one outstanding bond issue payable to the United States Department of Agriculture Rural Development (“RD”). The amount of the three-year average RD bond payment that should be allocated to South 641’s Sewer Division for the years 2016 through 2018 is \$7,109.⁴

5. The Commission has historically used a Debt Service Coverage (“DSC”) method to calculate the revenue requirements of a water district with long-term debt.

6. Application of the Commission’s DSC method to South 641’s pro forma sewer operations results in an overall revenue requirement from sewer operations in the amount of \$117,726. Revenue of \$115,814 from sewer service rates is necessary to generate the overall requirement.⁵

7. Phase 1 rates calculated by Staff will not produce \$115,814 in annual sewer service revenues; however, they will produce annual sewer service revenues of \$80,683, which is sufficient to meet the DSC ratio requirements of the RD bond.⁶

⁴ *Id.* at 16.

⁵ *Id.* at 15.

⁶

Gross Sewer Revenue and Income at Present Rates	\$	43,604
Plus: Sewer Revenue Increase from Phase 1 Rates		38,991
Gross Sewer Revenue After Implementation of Phase 1 Rates		82,595
Less: Sewer Operation and Maintenance Expenses		(69,761)
Sewer Taxes Other Than Income		(1,522)
Net Sewer Revenues for DSC Ratio Calculation		11,312
Divide by: Average Annual Payments on RD Bond		7,109
DSC Ratio		159%

8. The record contains no evidence that permitting South 641 to assess Phase 1 sewer rates will result in any degradation or reduction in the quality of sewer service that South 641 currently provides.

9. A utility may assess rates that produce a level of revenues that accepted ratemaking methodologies would regard as insufficient or inadequate. Absent evidence that the quality of the utility's service will decline or be degraded as a result of this level of revenue, the sewer rate phase-in plan found reasonable by Staff, and agreed to by South 641, should be accepted.⁷

10. Phase 2 rates calculated by Staff will increase pro forma present rate sewer revenues by \$74,122.

11. Increasing South 641's Sewer Division's volumetric rates across the board by an equal percentage is an equitable method to increase rates in the absence of a cost-of-service study.⁸

12. Calculating South 641's Sewer Division's flat monthly rate by applying an assumed usage of 4,000 gallons is appropriate.⁹

13. During the test year, South 641 used service lives for various sewer assets that are at variance with those found appropriate in the O&M Guide for the

⁷ *Utilities Operating Co. v. King*, 143 So.2d 854, 45 PUR3d 439, 443 (Fla. 1962) ("[I]n the absence of some showing that the service to the public will suffer by allowing ... [a] utility to charge rates which will not produce a fair return, the utility and not the Commission has the right of decision as to the rates it will charge so long as they do not exceed those which would produce a fair return as determined by the Commission."). See also Case No. 2006-00410, *The Application of Hardin County Water District No. 1 for a General Rate Adjustment Effective on and after December 2, 2006* (Ky. PSC Aug. 2, 2007); and Case No. 98-398, *In the Matter of an Adjustment of the Rates of the Kentucky Turnpike Water District and the Imposition of an Impact Fee* (Ky. PSC June 30, 1999).

⁸ Staff Report at 5.

⁹ *Id.* at 6.

Support of Rural Water-Wastewater Systems (“O&M Guide”).¹⁰ South 641 requested to adjust these lives to conform to the O&M Guide for ratemaking purposes.

14. The Commission has previously used the O&M Guide to establish the services lives of sewer assets when there is no evidence in the record that supports alternative lives.¹¹

15. The record contains no evidence that the sewer service lives used by South 641 should be at variance with the O&M Guide.

16. The service lives proposed by South 641 conform to the O&M Guide and should be used for ratemaking and accounting purposes in all future reporting periods.

IT IS THEREFORE ORDERED that:

1. The sewer service rate phase-in plan requested by South 641 is denied.
2. The sewer service rate phase-in plan calculated by Staff, and accepted by South 641, is approved.
3. South 641 shall charge the sewer service rates that are set forth in Appendix A for service rendered on and after the date of this Order.
4. South 641 shall charge the sewer service rates that are set forth in Appendix B for service rendered effective the day after the first anniversary of the date of this Order.
5. No earlier than 30 days, but no later than 20 days prior to the first anniversary of the date of this Order, South 641 shall publish notice of the Phase 2

¹⁰ Commission on Rural Water, *Guide for the Support of Rural Water-Wastewater Systems* (Chicago, Ill. 1974) at 246-247.

¹¹ Case No. 2014-00215, *Application of Airview Utilities, LLC for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076* (Ky. PSC Dec. 23, 2014); and Case No. 2013-00314, *Alternative Rate Adjustment Filing of Par-Tee LLC DBA Perry Park Resort Sewer Utility* (Ky. PSC Feb. 19, 2014).

rates at least once in a newspaper of general circulation in its territory or place an insert in bills rendered to its customers. Notice shall be in the form set forth in Appendix C to this Order. South 641 shall file with the Commission proof of publication no later than ten days after publication of the notice.

6. Within 20 days of the date of this Order, South 641 shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the rates approved herein as shown in Appendix A and Appendix B.

7. Any documents filed pursuant to ordering paragraph 5 shall reference this case number and shall be retained in the utility's general correspondence file.

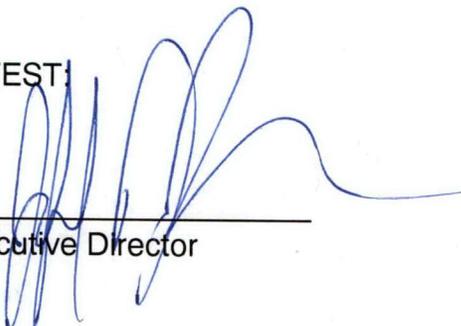
8. In all future reporting periods, South 641 shall use the "PSC Approved Service Life" set forth in Appendix D to this Order for the listed asset groups when calculating and reporting depreciation for all reporting periods after the date of this Order. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in accounting estimate.

9. The Executive Director is delegated authority to grant reasonable extensions of time for the filing of any documents required by this Order upon South 641's showing of good cause for such extension.

By the Commission

ENTERED
NOV 24 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00278 DATED **NOV 24 2015**

The following sewer rates are prescribed for the customers in the area served by South 641 Water District for sewer services rendered on and after November 24, 2015. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Phase 1

Monthly Sewer Rates

Volumetric Rate Applied to Metered Water Usage

Customer Charge	\$16.98	Minimum bill
All Usage	4.04	per 1,000 gallons

Sewer Customers Only

Flat Rate Charge	\$33.14	Monthly*
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* Calculated by applying the volumetric rates to 4,000 gallons of assumed monthly water usage.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00278 DATED **NOV 24 2015**

The following sewer rates are prescribed for the customers in the area served by South 641 Water District for sewer services rendered on and after November 25, 2016. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Phase 2

Monthly Sewer Rates

Volumetric Rate Applied to Metered Water Usage

Customer Charge	\$24.97	Minimum bill
All Usage	5.94	per 1,000 gallons

Sewer Customers Only

Flat Rate Charge	\$48.73	Monthly*
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* Calculated by applying the volumetric rates to 4,000 gallons of assumed monthly water usage.

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00278 DATED **NOV 24 2015**

NOTICE TO THE CUSTOMERS OF
SOUTH 641 WATER DISTRICT

Pursuant to the Order of November 24, 2015, of the Kentucky Public Service Commission in Case No. 2015-00278, the Phase 2 Rates shown in the following table shall become effective for sewer services rendered by South 641 Water District on and after November 25, 2016.

	<u>Present Rates</u>	<u>Phase 2 Rates</u>	<u>\$ Change</u>	<u>% Change</u>
Customer Charge	\$16.98 Minimum Bill	\$24.97 Minimum Bill	\$7.99	47.1%
All Usage	\$ 4.04 per 1,000 Gallons	\$ 5.94 per 1,000 Gallons	\$1.90	47.0%
Sewer Customers Only				
Flat Rate Charge	\$ 33.14 Monthly	\$ 48.73 Monthly	\$15.59	47.0%

APPENDIX D

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00278 DATED **NOV 24 2015**

Modifications to the Service Lives Assigned to
Certain Sewer Assets of South 641 Water District

Asset Title as Shown in Application	Current Service Life / Years	Commission Approved Service Life / Years
Administrative and Engineering Costs	20	35
Pumps and Impellers	5	7
Oxidation Lagoons	40	25

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